

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57891

KING COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

Issue Date: December 13, 1996

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KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to King County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management, the executive, and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 25, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the general-purpose financial statements of King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management, the executive, and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 25, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Cash And Investment Accounts Should Be Reconciled

Our audit revealed that the Department of Metropolitan Services (DMS) did not reconcile general ledger balances for cash, investments, and the warrant clearing fund accounts in a timely manner. DMS is the former Municipality of Metropolitan Seattle (Metro) which fully merged with King County effective January 1, 1996. DMS and King County maintain discrete financial accounting systems.

DMS did not reconcile bank deposits to the accounting records. Without this reconciliation, DMS lacked the ability to detect errors or irregularities.

The DMS general ledger cash accounts were not reconciled timely to the King County Treasury records. Initially, the 1995 year-end DMS cash account balances were \$11,129,110 less than the King County records. A major reconciliation effort completed on May 24, 1996, identified the majority of the discrepancies, however, \$313,331 remained unreconciled.

The DMS general ledger investment account balances were not reconciled timely to the King County investment management records. Initially, the 1995 year-end DMS investment account balances were \$7,094,579 less than the King County records. After a major reconciliation effort, completed on May 24, 1996, DMS general ledger investment accounts were balanced.

The DMS general ledger accounts payable for the warrant clearing fund were not reconciled timely to the accounts payable detail. In addition to the untimely reconciliation, a new accounting system at DMS had a "bug" that added to the reconciliation difficulties. As a result, the 1995 year-end general ledger balances for the warrant clearing fund were forced to balance to the accounts payable detail by plugging and recording \$991,247 in miscellaneous expense.

The above reconciliation delays were caused by the King County-Metro merger, wherein departmental responsibilities and staffing assignments changed, and by the September 1995 installation of the new accounting system at DMS. The lack of timely reconciliations could lead to errors and irregularities that are not detected in a timely manner.

The major effort to reconcile the 1995 year-end DMS general ledger balances delayed preparation of the county's 1995 financial statements and caused additional audit costs. The remaining unexplained variances were not material to the county's financial statements.

As of June 6, 1996, monthly reconciliations for 1996 DMS cash and investments had not been performed.

We recommend DMS cash, investment, and warrant clearing fund general ledger balances be reconciled monthly to King County and subsidiary detail records.

Auditee's Response

We agree with the findings and recommendation. As of January 1, 1996, DMS finance and accounting operations were merged with the Finance Department. Reconciliation of accounts was complicated by the merger and by the September 1995 installation of the new Integrated Business Information System (IBIS) at DMS. We have made substantial progress toward timely and complete reconciliations. Our response to specific findings is as follows:

- a. *In September 1995, DMS's new IBIS accounting system was implemented. During the last four months of 1995, accounting reports necessary for the reconciliation were not available from the system. The Treasury and Financial Management divisions are now developing the reports and expect to perform reconciliations regularly by the end of 1996.*
- b. *During the 1995 year-end closing, we found that the IRIS reconciliation did not include cash accounts in the accounts payable and payroll clearing funds. The Financial Management section immediately began efforts to gain an understanding of the system's clearing fund accounting procedures and complete a full reconciliation. We have reconciled 1995. Reconciliation of 1996 is underway and we expect it to be completed timely for year-end 1996.*
- c. *1995 has been reconciled. The Treasury Division is reconciling the investment account monthly and expects to keep reconciliations current.*
- d. *The IBIS general ledger control account for accounts payable is now being reconciled to the accounts payable detail every month.*

2. The Ethics Board Should Enforce The King County Code Of Ethics

The county's system of monitoring and ensuring employees and consultants comply with conflict of interest disclosure filing requirements was inadequate. County officials have established a code of ethics which governs and provides guidance to all county officials and employees in performance of official duties. The code requires certain employees and private consultants to disclose and file a statement of conflict of interest with the county ethics board.

Our tests disclosed the following instances of noncompliance with the code requirements:

- Of 40 county employees tested, who were involved in negotiating or awarding contracts and were required to file conflict of interest statements, 35 had not filed the 1995 disclosure statements.
- Of 40 filed employee disclosure statements tested, five disclosed consulting income or outside employment worthy of review. The board made no such review. Twenty-one statements were not signed by the employee.
- Of 86 county consultants tested, who were required to file with the ethics board before their contracts were finalized, 72 did not have statements on file with the board. The contracts and services had been finalized and rendered.

Regarding county employees, the *King County Employee Code of Ethics*, Chapter 3.04.050 states in part:

All elected county officials; employees appointed by the county executive; all employees appointed by the deputy county executive, or department directors, and who are subject to the approval of the county executive; all

employees of the council; and such public employees as may be determined by the board of ethics, shall file with the board of ethics within ten days of employment or appointment and on or before April 15 of each year thereafter a written statement (Emphasis added.)

The Ethics Board has defined public employees required to file as:

Elected officials, department directors, division managers, court administrators, administrative assistants, confidential secretaries, exempt staff, County Council staff, all board and commission members, and those involved in negotiating or awarding contracts (Emphasis added)

Regarding consultants, the Code of Ethics, Chapter 3.04.120, states in part:

It shall be the duty of any private consultant firm and/or individual entering into contracts with King County to perform studies in excess of two thousand five hundred dollars to file with the King County board of ethics and the King County executive a sworn written disclosure statement disclosing . . . any potential interest or conflict of interest . . . No contract with any private consultant firm and/or individual shall be considered final until five days after receipt by the board of ethics of the information required to be disclosed

The ethics board cannot ensure proper implementation and adherence to the county's code of ethics when employees and consultants are allowed to ignore the requirements. Further, to be effective, the board must follow up on potential conflicts of interest.

We recommend the King County Ethics Board implement adequate procedures to ensure employees and consultants comply with the code of ethics disclosure filing requirements.

Auditee's Response

We agree with the findings and recommendation. Our responses to the specific findings are presented below:

- a. Department directors will be instructed to notify the Board of Ethics of all employees in their departments who exercise contract management authority not later than January 31 of each year, or within 10 days of employment in the case of new employees. The employees will be designated by name, job title, and work section.*
- b. The Board of Ethics has authorized the administrator to examine all financial disclosure statements which show consulting or outside employment income to determine whether such outside income presents a conflict of interest. Cases in which a potential conflict exist will be referred to the Board of Ethics for further disposition. The administrator will not accept financial disclosure forms without signature, and will return them to the employee for completion.*
- c. County Ordinance 12138 amended consultant disclosure to Provide that "no Payment shall be made on any contract with a private consultant firm and/or individual" until the Board of Ethics receives a consultant disclosure form. The ordinance further provides that a contract may be suspended or debarred for violation of ethical standards. The Board of Ethics will coordinate with the Procurement Divisions for both Professional and Consultant Services and Goods and Non-Professional/Consultant Services to ensure that all consultant disclosure*

statements are forwarded to the Board. The Board will also develop clarifying language to further define "potential conflicts of interest."

3. Internal Controls Over Cash Receipting At The Remote Locations Should Be Improved

Controls over cash receipting performed by selected county departments at remote locations throughout the county were generally weak. Those weaknesses by department are listed as follows:

- a. At the Department of Adult Detention a significant number of daily cash reports for each of the three shifts of cashiers lacked evidence of review or approval by the supervising sergeants. The sergeants should verify and approve cash activities reported by each cashier at the end of each shift.

While the accounting staff reviewed the cash reports and the related cash activity, the lack of review and approval by cashier supervisors could prevent assigning responsibility should a loss occur. This condition also increases the risk that errors or irregularities could occur and not be detected in a timely manner.

- b. Within the Licensing and Regulatory Services Division, multiple cashiers in the Animal, Business, and Marriage (ABM) section and in the animal shelters receipted payments into the same cash registers. Further, receipts at ABM were not counted when the registers closed at the end of the day. The receipts were placed, uncounted, in the vault overnight, to be counted and balanced by the accounting/deposit clerk. Finally, mode of payment (cash or check) was not consistently or accurately noted.

- c. At the Heritage Festival operated by the Parks Division we found:

- (1) Original source documents for revenues generated by the children's corner, the information booth, and the festival office, were not maintained. Without the original source documents, we could not determine the accuracy of revenue generated and reported on those activities.

- (2) Revenues at the festival were receipted using generic "Rediform" receipts. Rediform receipts do not ensure or provide sequential completeness of transactions because duplicate numbers are easily obtained. Official pre-numbered receipts should always be used for all receipting functions.

- (3) Additionally, the festival's financial records were not reconciled in a timely manner. Although our audit disclosed no irregularities, the lack of source documents and official receipts, coupled with untimely reconciliations could result in errors or misappropriation of public funds.

- d. At the Department of Development and Environmental Services (DDES) we found:

- (1) The main cashier entered miscellaneous sales into both the cash register system and the Sierra permit system. Access capability into both databases limits the effectiveness of the independent reconciliation performed between the Sierra and cash register systems.

- (2) The DDES cashier maintains the deposit suspense account both in the Sierra permit system and the check log program. The cashier has edit capabilities of the

check log program. Currently there is no reconciliation or review performed to determine that checks recorded in the check log program are eventually deposited with the bank. These circumstances could allow errors and irregularities to occur and not be detected in a timely manner

(3) Our audit disclosed many instances of negative entries in the cash reconciliation payment report. There were inadequate comments or documentation to explain the reasons for the negative entries. Further, voided cash register transactions were not reviewed and approved by a supervisor at the time they occurred. Voided transactions and negative payments could be used to conceal irregularities in cash receipts activity.

(4) Our cash count at the record center disclosed that daily receipts were not deposited with the DDES main cashier on a timely basis. At the time of our cash count, some receipts had been on hand for nearly 20 days.

(5) Generic "Rediform" receipts were used for manual receipts written by the DDES main cashier when power outages or other interruptions occurred. Other remote locations, including the Record Center, Land Use Services, and Environmental Education used generic rediform receipts for all receipting. We also noted a few checks were received at the community centers, but no receipts were issued to the customers. This situation established no control over payments received.

(6) The Record Center and the Land Use Services could not locate their 1995 receipt books. When original documents are not retained, it is impossible to determine whether errors or irregularities have occurred.

e. Our audit of 6 out of the 16 remote cash handling sites and the central cash receipting function of the Seattle-King County Department of Public Health (public health) revealed the following weaknesses:

(1) Five out of the six locations could not specifically identify who was responsible for the processing of individual cash transactions. There were normally multiple cashiers at each site and all were able to process cash receipts at any time during office hours.

(2) Four out of the six locations audited allowed an individual responsible for cashiering to also prepare the deposit without adequate supervisory review. In addition, two locations allowed the cashiers to also post cash transactions to customer accounts.

(3) Two locations did not record the mode of payment when processing transactions through the cash register.

(4) Two public health centers did not retain source documents with cash register tapes and deposit information. In addition, at a pharmacy, validations of source documents were performed only on cash transactions; check transactions were not being validated. And, a dental clinic was not validating any of their source documents with payment information nor was this clinic using the proper control log for receipting in food handler and meat wrapper permits.

(5) Two locations did not provide adequate restricted access to locked cabinets and/or safes where money was stored before the courier came to collect the daily deposits.

(6) At all remote locations examined, we were unable to identify any controls which would prevent unrecorded receipts from going undetected.

(7) At the central cash receipt location within fiscal services, one person was responsible for receiving all moneys collected from remote locations, prepared the deposit with the King County Treasury Division, and made adjustments to the deposit without any subsequent notification to the remote locations as to the amounts that were deposited on their behalf.

The conditions at Public Health were caused by lack of adherence to the prescribed policies and procedures. Fiscal services has attempted, in the past, to monitor these locations. However, the last monitoring of cash handling was performed over two years ago. It should be noted that, in the summer of 1996, \$162 was stolen from a deposit prepared at the Southeast Public Health Center. Because of the lack of segregation of duties and supervisory review at both the health center, as well as the central cash receipting at fiscal services, public health officials were unable to assign accountability to the theft.

We recommend county departments implement appropriate internal control procedures to ensure that all moneys collected are recorded and deposited, including:

- Proper segregation of duties.
- Separate cash workstations, registers, or drawers assigned to each cashier.
- Cash collections accounted for at shift changes and deposits prepared at the end of the day, all with independent or supervisory reviews.
- Independent approvals of negative payment entries or voids.
- Daily deposits from remote locations with sufficient activity.
- Deposits and inventory items stored in secure locations with limited access.
- Prenumbered and official cash receipting documents.
- Mode of payment consistently and accurately noted on the receipt document, with independent reconciliation to the composition of the deposit.
- Original documents retained as per the county's retention schedule.

Auditee's Response

We agree with the findings and recommendations and are taking corrective action to the extent practicable. Responses to specific findings by department are:

- a. *Department of Adult Detention concurs. The department will issue a memorandum to all sergeant supervisors stating that they are responsible for reviewing and approving daily cash reports at the end of each shift.*

- b. *Licensing and Regulatory Services Division states that because of space limitations and the number of employees serving customers at the ABM service counter and the Kent Animal Control Shelter, a separate cash workstation or drawer for each cashier is not feasible without a space remodel. Instead, unique cashier numbers are now required for each transaction. We are assessing the cost/benefit of acquiring a point of sale accounting system to allow for separate cash workstations. If this is not feasible, we will take measures to separate cash workstations by a physical remodel.*

Cash counts of ABM receipts are now performed at the end of the business day and daily deposits are now required. Mode of payment is now being written on source documents and, as applications are reprinted, mode of payment will be included on the forms.

- c. *(1) The Parks Division will develop and implement a revenue receipt system with written policies and procedures for revenues and retention of source documents generated by the children's corner, the information booth, and the festival office by no later than December 31, 1996.*

(2) The Department does use official, prenumbered receipts. In 1995, the Heritage Festival committee did not print enough receipt forms and was forced to use "Rediform" receipts. The Section Chief of Recreation Services will notify all staff by December 1, 1996, that only official, prenumbered receipts can be used at the Heritage Festival.

(3) The Recreation and Aquatics Division will complete reconciliation of the Heritage Festival within four weeks of receipt of the September ARMS reports. A final review and reconciliation will be conducted by the Chief of Budget, Finance and Personnel Section within thirty days of receipt of the Division's reconciliation report.

- d. *(1) Department of Development and Environmental Services (DDES) supervisor now reviews on a daily basis all transactions entered to the Sierra system by the cashier.*

(2) DDES has implemented a new check log program with security and limited access. The finance section has implemented a two part reconciliation prepared by two different individuals. A cashier reconciles the check log program database to the Sierra system daily. A supervisor reconciles the check log program to the G/L ARMS report monthly. The monthly reconciliation includes verification that all checks are deposited to the bank.

(3) A supervisor now reviews all negative entries to ensure validity and completeness of documentation, including comments.

(4) A cash register has been purchased and installed at the Records Center. This register runs a contemporaneous tape for auditing transactions. The staff runs a "Z" tape each day and takes the tape with the deposit to the cashier each day.

(5) The Department has ordered and distributed receipt books imprinted with DDES name and address. These receipt books are also sequentially numbered. All old rediform receipts books were collected. The imprinted receipt books were logged out to each remote center with specific instructions for control and use.

(6) Finance now controls the issuance of imprinted receipt books and the retention of all used receipt books.

- (e) *As noted in the audit report, the conditions at the Department of Public Health were caused by lack of adherence to prescribed policies and procedures. To correct the deficiencies, the department will conduct cash handling training classes twice per year and will perform*

random, unannounced cash counts and procedural reviews at remote cash handling sites to assess compliance with prescribed policies and procedures. Mode of payment will be consistently and accurately noted on receipt documents and this procedure will be addressed at the next training class. In addition, no deposit adjustments will be made centrally without notification to the remote locations and two initialed verifications at the central site. Sites reporting lost or stolen cash will be reported to the State Auditor immediately, and an audit will be requested.

4. Controls Over Fixed Assets Should Be Improved

The policies and procedures for fixed assets as prescribed by both King County and the Department of Metropolitan Services (DMS) (which maintain discrete financial accounting systems) were not always being followed.

a. We found the following for DMS assets:

(1) We performed an on-site physical inventory of 231 pieces of computer equipment, valued at more than \$1,000, at four locations. Eleven of the items in our sample could not be found. No documentation existed to adequately track their disposition.

(2) We found ten assets, each with an individual value of more than \$20,000, without asset tags and not individually tracked. Because these assets were not recorded as equipment, they were not included in the annual inventory.

(3) We compared three DMS organizational inventory lists and the fixed asset accounting records. The comparison included 202 pieces of computer equipment of which 55 pieces listed on the fixed asset accounting records were not listed on the inventory list. Six assets were found in surplus with no tracking documentation.

(4) Ten assets in our sample had been transferred to other DMS locations without notifying central accounting. Central accounting records were not updated for the transfers and no transfer documentation existed.

(5) Based on the annual physical inventory of assets valued more than \$5,000, nineteen items were reported as having been disposed of. However, we could not locate disposition approval forms for any of these items. In addition, four items removed from the books in 1995 did not have the required approval authorization form.

(6) None of the fixed asset custodians interviewed were aware of the DMS policies, including the requirement to submit a signed Request for Surplus Authorization/Notification of Asset Disposition Form.

DMS Administrative Policy No. 13 states in part:

1. The Procurement Management Division will assign each fixed asset to a custodial organization at the time it is recorded as a fixed asset.
2. The supervisor of the custodial organization is responsible for safeguarding fixed assets and attractive assets against loss or theft.

3. The supervisor of the custodial organization is responsible for informing the Procurement Management Division by submitting a completed Request for Surplus Authorization/Fixed Asset Transfer form if a fixed asset is transferred to another location or disposed of in any manner.
 4. The procurement management organization shall coordinate fixed asset inventories.
- b. We found the following for King County assets:
- (1) Our audit disclosed seven county departments had not completed a 1995 physical inventory verification as of the due date March 5, 1996. One of the departments had provided Property Service Division with a certification without performing the actual physical inventory.
 - (2) Property Service Division is accountable for establishment of inventory procedures which control and monitor all King County fixed assets and disposal of surplus property. The division's controls were not adequate to accurately determine which departments had or had not conducted a physical inventory count. The Property Service Annual Inventory Status Report showed fourteen departments as delinquent in terms of an annual physical inventory when each one those departments had actually submitted the required documentation.
 - (3) The county has no policy on employee home use of county-owned computers. In several of the departments we visited, including DMS, several computers which could not be located during the audit were found to be temporarily or permanently located at employees' residences.

We recommend King County officials enforce adherence to established policies and procedures governing the safeguarding of fixed assets. We also recommend King County develop a policy on employee home use of county-owned computers.

Auditee's Response

We agree. The Property Services Division will work with the State Auditor to identify specific equipment so that corrections or adjustments can be made.

a. *Department of Metropolitan Services Response:*

- (1) Property Services will work with the State Auditor to identify the equipment and with the assets custodians to correct or adjust the accounting records.*
- (2) Property Services will identify the equipment to determine whether or not these were recently acquired assets in the process of being tagged and entered into the records. If they were not, we will request that the equipment be tagged and recorded.*
- (3) Property Services will identify the equipment and the organizations and request correction of the accounting records.*
- (4) Property Services will identify the equipment and request transfer documentation.*
- (5) Property Services will identify the equipment and request correction of the accounting records.*

(6) Supervisors will be requested to ensure that assets custodians are familiar with policies and procedures for disposition of assets.

b. *King County Response:*

(1) Property Services division will modify the physical inventory verification form so that the agency manager is required to certify both that a physical inventory has been performed and that the inventory is correct. Property Services will also monitor transaction activity during the inventory process and ask agencies that have not submitted any change forms to show that they have completed a physical inventory.

(2) The fourteen agencies did have the inventory documents in their own files but did not submit them to Property Services. The division will review and if necessary, revise the inventory verification procedure to clarify that inventory verification forms are to be returned to Property Services. Prior to the due date, the division will notify departments that have not submitted inventory verification forms, and will follow up with non-responsive departments.

(3) The county will develop a policy on employee use of county-owned properties. The policy will require that the equipment, the custodial employee, and the location of the equipment be recorded in the county's Fixed Assets System.

5. Monitoring Of Departments Procurement Process Should Be Improved

The county's Purchasing Agency (now the Procurement Division of the Department of Finance) did not monitor the other county departments to ensure adherence to established county procurement procedures. County departments could purchase goods and services below \$1,000 (now \$2,500) directly from vendors as long as they follow established county procedures.

We sampled departmental purchases and found quantities, timing of purchases, and invoices were split to avoid going through purchasing and to avoid competitive procurement requirements.

Further, departments utilizing the purchasing's blanket purchase orders were not verifying the price billed to the price per the purchase order. We found instances where the price billed exceeded the price stipulated on the purchase order.

Without proper monitoring of departmental purchasing practices, the county has little assurance that established county purchasing procedures are followed and competitive procurement requirements are met.

Purchasing has begun monitoring efforts including increased communication with county departments and developing an exception report to identify split purchases.

We recommend Purchasing continue its effort to improve monitoring departmental procurement process.

Auditee's Response

As noted in the report, the Procurement Divisions have already begun monitoring efforts, including improving communications with county departments and developing an exception report to identify split purchases. This effort is continuing.

6. Internal Controls Over Stadium Administration Accounts Receivable Should Be Improved

The Department of Stadium Administration (stadium) controls over accounts receivable were inadequate and established county policies and procedures over delinquent accounts were not followed. The stadium is responsible for contracting with Kingdome event tenants, settling contract costs, billing tenants, and collecting payments thereafter.

Our audit disclosed the following conditions:

- a. A sole accountant at the stadium was responsible for billing and collecting event settlements; we found no compensating controls.
- b. The accountant was also responsible for aging the accounts receivable balance, estimating the provision for uncollectible accounts receivable, and preparing the appropriate general journal entries. We found no evidence of supervisory review and approval of those entries.
- c. Significant accounts receivable were allowed to become delinquent. For instance, a tenant did not pay settlement expenses in 1994 and 1995, totaling \$85,894 and failed to pay a required \$40,000 security deposit in 1995. However, despite the outstanding debt, the tenant was allowed to book another event in 1996.
- d. A \$17,485 debt has been in collection enforcement for over two years. The Prosecuting Attorney's Office has not been contacted to obtain the necessary approvals to write it off.
- e. A tenant could not pay a \$24,239 debt in 1990. The tenant entered into an informal agreement with the stadium to pay \$50 per month. After the end of 1991, the tenant stopped paying the \$50 per month. One letter was sent in May 1992 requesting payment. Since that time, no action has been taken to collect the debt.
- f. The stadium is owed various debts totaling \$53,555. The debts are one to six years old and have not been sent to collection enforcement for collection.

King County Administrative Policy and Procedure number FIN 11-3, write-off of uncollectible accounts receivable, states under Policy 6.1:

County agencies shall prepare and review an aged trial balance of their accounts receivable as often as necessary, but at least annually at year-end, in order to determine if any delinquent receivables should be written off as bad debts.

Additionally, Administrative Policy number FIN 11-2, provision for estimated uncollectible accounts receivable, states in part under procedure 7.2.3 that agencies have the responsibility to prepare a separate schedule for each of the accounts receivable being disputed by the debtor and indicate the most likely outcome of each disputed account.

Failure to establish adequate internal controls in management of accounts receivable could allow for errors or irregularities in the billing and receipting activities. In addition, tenants could use the Kingdome without adequately compensating the county.

We recommend stadium management implement adequate controls over accounts receivable, including proper segregation of duties, supervisory review, and approval of billing and

accounting entries. We further recommend the stadium follow established King County procedures in managing delinquent accounts receivable.

Auditee's Response

We generally agree with the findings and recommendations, with some exceptions. Responses to specific findings are presented below.

- a. *We agree that segregation of duties needs to be improved. We will train another staff person and reassign responsibilities so that incompatible duties will be segregated. In the meantime, we have established the following compensating controls:*
- *The Event Services Manager reviews all event settlement statements.*
 - *Instructions on each invoice direct clients to mail remittances to the finance manager.*
 - *Checks are restrictively endorsed before being given to accounts receivable for processing.*
 - *Settlement payments are recorded on a form T/C 25 cash receipt which must be balanced and sent to the King County cashier for deposit.*
- b. *We concur. We will strengthen our review procedures and documentation. In the future, the Stadium management team will review the schedules and make any changes deemed necessary. The Finance and Administration Manager will then formally approve the schedules by signature before transmitting them to the county Office of Financial Management.*
- c. *We disagree. Total delinquent receivables expressed as percentages of total receivables, total transactions, or number of customers is, in fact, relatively small, and delinquencies are not always under the control of the stadium. Stadium policy is to refuse booking events for tenants with outstanding balances. In the case cited, Stadium policy was superseded by Council Motion #9338. The balance now remaining on the account is \$42,895. If unpaid at the end of the current year, the Stadium will recommend that the account be referred for collection or written off.*
- d. *We concur. Collection Enforcement and their contract collection agency have been unable to locate the debtor. We will refer the debt to the Prosecuting Attorney's Office and the Chief Accountant with the recommendation that it be written off. The receivable has been estimated as 100% uncollectible and writing it off will have no effect on the department's net balance.*
- e. *We concur. We will refer the debt to the Prosecuting Attorney's Office and the Chief Account with the recommendation that it be written off. This account has been estimated as 100% uncollectible and writing it off will have no effect on the department's net balance.*
- f. *We disagree. The \$53,555 includes:*
- \$46,875 that will be written off this year as a result of a recent settlement of a contract dispute.*
- \$646 that has recently been paid.*
- \$230 that should stay active as court-ordered restitution payments are being received.*

\$3,537 that will be recommended for write-off because of extenuating circumstances that made collection unlikely.

\$2,268 that will be referred to Collection Enforcement.

Auditor's Concluding Remarks

For those items with which stadium officials did not concur we offer the following:

- c. The delinquent accounts receivable referred to, we felt, were significant rather than insignificant dollar amounts. We agree they are not significant relative to the total activity of the stadium.
- f. Our finding reported the status of these accounts receivable at the time of our audit field work.

7. Controls Over Employee Payroll Time Cards Should Be Strengthened

The Detention Services Division of the Department of Youth Services did not follow prescribed payroll control procedures. The division utilizes automated time clocks for establishing time worked by employees. We examined the monthly time cards for twenty-one workers (252 timecards) and two supervisors (24 timecards) and noted the following conditions:

- a. Employees did not always use the automated time clocks. Of the 252 time cards examined, employees failed to punch in or out on 89 occasions.
- b. The automated time cards had extensive manual adjustments. Of the 252 cards examined, 152 manual changes were made, mostly for late-to-arrive or early-to-leave reasons.
- c. Of the 252 monthly time cards examined, 240 were lacking employee or supervisor signatures.
- d. County prescribed Absent Request forms were not properly filed. The forms were stored in boxes in no particular order. Of the forms we requested, ten could not be located.

The Department of Youth Services has established payroll procedures for each of its divisions. The Detention Division's failure to follow those established procedures could result in misuse of public funds should an employee be paid for time not worked or leave benefits not be deducted from available leave balances.

We recommend the Department of Youth Services require its Detention Division to adhere to established departmental payroll procedures, including utilizing the time clocks, signing time cards and filing Absent Request leave forms.

Auditee's Response

We concur with the finding and recommendation. The department will improve enforcement of existing policies and procedures. Manual changes to timecards will require employee and supervisory signatures certifying accuracy of the entry. Internal control procedures for tracking and filing Absence Request forms in the Detention Services Division will be revised by the end of November 1996, to

ensure our ability to locate Absence Request forms for all employees. The Administrative Services Division's Fiscal Office will begin random auditing of timekeeping procedures to ensure adherence to established policies and procedures.

Auditor's Concluding Remarks

Based upon the response, the issues delineated in our report appear to have been addressed. We will review these areas again in our subsequent audit.

We would like to express our appreciation to staff for their assistance and cooperation throughout the audit process.

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the accompanying general-purpose financial statements of King County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 25, 1996, on our consideration of the county's internal control structure and a report dated July 25, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

July 25, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the general-purpose financial statements of King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 25, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of King County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

July 25, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the general-purpose financial statements of King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 25, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management, the executive, and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 1, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the general-purpose financial statements of King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 25, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to approval, environmental review, program income, subrecipients agreements, vouchers, right-of-way, extensions, sampling and testing, subrecipients monitoring, supplanting requirements, periods of allowability, establish paternity, charter service, disposal of realty and related transit equipments, employees labor protection, school bus operations, "Buy America" provisions, prescribed uniform system of accounts and records, public hearings, environmental review, fare charges for elderly and handicapped, project performance standards and the Clean Water Act, operation and maintenance manuals, user charge systems, construction and quality assurance plans, water quality testing, and recording of ownership interest as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*, *Catalog of Federal Domestic Assistance*, and grant agreements/contracts
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, King County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management, the executive, and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 1, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the general-purpose financial statements of King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 25, 1996.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the county provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that King County had not complied, in all material respects, with those requirements.

This report is intended for the information of management, the executive, and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 1, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

The Honorable Gary Locke, King County Executive
King County
Seattle, Washington

We have audited the general-purpose financial statements of King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated July 25, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 1, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated July 25, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure category was determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Inventory control

During the fiscal year ended December 31, 1995, the county expended 68 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the executive, and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 1, 1996

KING COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. Division of Alcohol And Substance Abuse Officials Should Improve Accounting And Internal Control Procedures Over "In-House" Cash Accounts

Resolution: The finding has been resolved.
2. King County Officials Should Improve Internal Control Procedures Over The Employment Of Temporary Employees At The Department Of Public Works

Resolution: The finding has been resolved.
3. King County Officials Should Avoid Employment Arrangement Where Conflicts Of Interest Appear To Exist

Resolution: The specific issue has been resolved; no further instances were noted during our 1995 audit.
4. Department Of Metropolitan Services Officials Should Improve The Internal Control Policies And Procedures Over The Procurement Process

Resolution: The finding has been resolved.
5. Officials Of The Department Of Facilities And Construction Management Should Improve Internal Control Procedures And Follow Established Policies In The Design Consultant Selection And Contract Negotiation Process

Resolution: The department is in the process of improving the internal control procedures.
6. Department Of Metropolitan Services Officials Should Improve Accountability And Control Over Fixed Assets

Resolution: Weaknesses still exist. See Finding 4.

7. Public Safety Cash Management System Should Be Modified To Improve Data Security

Resolution: *Public Safety management is in the process of correcting this weakness.*

8. Public Safety Officials Should Deposit Forfeited Drug Seizure Funds In The County Seized Assets Savings Account In A Timely Manner

Resolution: *The finding has been resolved.*